

PROPOSAL OF A MODIFIED INCENTIVE SCHEME FOR THE GROWTH OF AN ORGANIZATION

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ABSTRACT

It is a universal fact that everyone works for result. In an industry, if a definite amount is set as salary then employees will work only till they reach the target. But once an incentive scheme is proposed whereby an employee knows more the work done (after achieving the target) more will be the incentive, he/she will be more loyal to the industry which will result in higher production. In this paper point based incentive scheme is discussed and a better incentive scheme called Novartis scheme is implemented based on various situations.

Keywords: *Employees, Incentive, Novartis, Production, Point based, Target.*

I. INTRODUCTION

It is a known fact that everyone has a purpose behind every act. The same fact implies for employees working in various companies or industries. In this case, the purpose is salary. Now that in most cases, employee is already told the definite salary that he/she will earn after a month or year, it is known that he/she will become casual to the work as salary remains constant. [1] It is a known fact that motivational concept are central to employees. So came the concept of incentive, whereby apart from salary, employees are offered incentives on the basis of amount of work done after achieving a definite target set by the organization. [2] Incentive is a means by which an organization motivates and increases the performance of its workers. [3] Motivation and performance are greater when chronic predispositions, task incentives, and means of goal attainment all share the same regulatory focus than when they do not. [4] The two characteristics that influences the work motivation are job characteristics and work content.

[5] Every employee wants a caring organization; benefits can be source of competitive advantage. So incentives can be termed as hope that an employee has, to be rewarded if he/she works efficiently and crosses the determined target. [6] Motivation must come from within the individual (Zacarelli, 1985; Simons & Enz, 1995; Nicholson, 2003). Incentive not only increases the productivity but also enhances commitment in the employees. [7] Incentives are also being offered to study whether the individual religious performance increases. [8] Incentive is the offer of a reward before the action is taken so that the desired behaviour can be induced. Incentive is a best method for the employer to show that the input of the employees is valued, [9] as it is always efficient for the firm to retain the worker in all states of the world.

When broadly classified, incentives may be monetary or non monetary. In monetary incentive scheme, employee is given monetary benefits for his/her dedicated work like bonus. [10] Monetary incentive may change how tasks are being perceived but if the incentives are not large enough; this change in perception can lead to undesired effects on behaviour. [11] When individuals are assigned tasks for which they do not have the

skills, they wont increase the effort under monetary incentives as they believe that effort wont lead to increase in performance and consequent rewards. In non monetary incentive scheme, as the term suggests, employee is given benefits but not in monetary terms which [12] includes praises and promotions (Beardwell, Holden, & Claydon, 2004; Hoque, 2003).

There are various reasons why an industry require incentive scheme which is explained below:

- Increase objective achievement rate

If the employees are offered more money for more well defined i.e. qualitative and quantitative work, employer can set goals that are realistic because there are full chances that those objectives will be achieved as employees are rewarded for their hard work.

- Less number of absentees

If the employee is set a target and if he/she knows that after crossing the target, monetary benefits may be availed, so he/she may try to be present in the industry for more number of days so as to cross the target.

- Mutual benefits

Incentive scheme is a scheme where both the parties i.e. the employer and the employee are given the benefits. Employer is benefitted as target is reached and sometimes target is crossed as well. Employees are benefitted in terms of monetary incentives.

- Increase in production

It may be clear from the above mentioned points that when monetary incentive is given to the employees on crossing the target, more and more employees will try and cross the target. Thus, in other terms Productivity will increase.

- Increased loyalty rate

When employees know that the industry is rewarding them for their work, they too will be loyal to the company. If the employees of the industry are loyal, then and only then can an industry reach great heights.

So, it may be stated that setting incentive schemes in an industry is not only beneficial for the employees but also for the employer or in other words the industry as a whole.

There are various incentive schemes (inside monetary incentive schemes) that are used by various industries. One such scheme is point based incentive scheme which is explained below.

II. POINT BASED INCENTIVE SCHEME

Point based incentive scheme is a scheme, whereby an employee is rewarded points for his/her work once the target is crossed. Based on the points, incentive is decided. This point based incentive scheme is a crisp scheme. That is say for example an employee who produces 50 units more than target will get 20 points and the one who produces 51 units more than target will get 40 points, if the point recorded table states 30 to 50 units will yield 20 points and 51 above yield 40 points. That means there is a crisp line at 50 units beyond which point is 40 and beneath which point is 20. When these points are converted to monetary terms then say if Rs 50 per point is the ratio of incentive, then the person who produced 50 units will get Rs 1000 as incentive and the one who produced 51 units will get Rs 2000 as incentive. But if we consider real time scenario, the person who produced 51 units hasn't done that much of work for which he/she should be awarded incentive double the amount than that of the one who produced 50 units.

When considering the case of industry, work is done in groups and it is the group which is credited or blamed for the work or the output of that stage and not any individual. [13] If the money is paid to the group then how the money is distributed among them can have a major impact on the type or amount of behavioural change that occurs (Christianson et al, 2006; Young and Conrad, 2007). In point based scheme also points that are awarded are for a group or team not an individual. It is a known fact that in most cases, the team that is formed will have both type of people, i.e. people who are more dedicated and people who are less dedicated. Also in a group there are people who take more leave and there are people who are regular to office. If in a group same points are rewarded for all the members (free riding problem), then in a way it is unjust for the ones who are dedicated and regular to office. Similarly this scheme will act as a demoralizer for them. Its result will be that the dedicated and regular employees will also become less dedicated and irregular as the monetary value (in terms of incentive) is the same for all the members in a group.

So, a better incentive scheme is proposed after altering a few parameters whereby the incentive will vary from member to member even if they belong to a same group.

III. NOVARTIS SCHEME

The Novartis scheme is adapted from the Novartis group and some amendments are made in it so as to suit the organization in which the point based incentive scheme is used. The NOVARTIS norms have been replaced by the norms that are suitable for the organization, so that a comparison can be done between the proposed incentive formula and the point based incentive scheme.

Novartis scheme includes a few factors namely: basic pay, incentive percentage, business performance multiplier and individual performance multiplier. Based on these factors, a formula was formulated which is called Novartis formula which is given below:

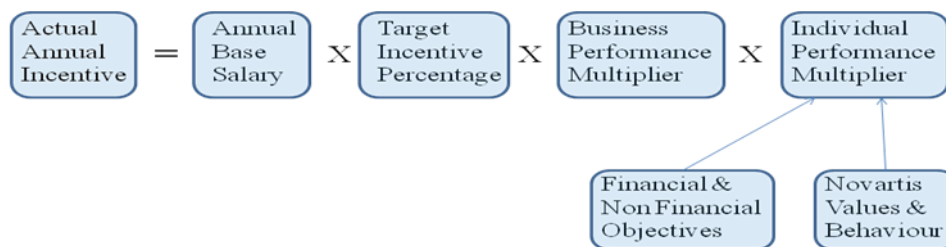


Fig. 1: Novartis Formula

The basic salary and incentive percentage is decided by the management after negotiations with the employees. Business performance multiplier depends upon how well the organization perform during the time period and based on that, a fixed scale will be given as a multiplier which ranges from 0 to 1.5 of the target amount. Individual performance depends upon factor attendance and the target that is being achieved by the employees in the respective section. Based on this, a scale will be provided to each employee and will range from 0 to 1.5 of the target amount.

So this incentive calculation formula will help in motivating the employees to work as their individual performance is also valued and no free riding problem will arise as in the case with point based incentive system. With the help of this formula it is possible to calculate the percentage of incentive that should be given to the employees based on the basic salary.

The proposed formula is designed to pay the employees based on performance measured against the target set by the organization, the individual performance and the performance of the organization as well.

$$\text{Incentive to be given to employees} = \text{Incentive decided by management} \times \text{Business performance multiplier} \times \text{Individual performance multiplier}$$

Fig. 2: Proposed Formula

The incentive percentage to be given to the employees is set by the organization, that is if the company decides to give 15 % as incentive then the first part will have the value 0.15.

The second part of the equation gives the value of the individual performance based on factor like attendance and the target achieved. According to Novartis the value should range between 0 and 1.5.

Business performance multiplier ranges between the value 0 and 1.5. This depends on the business performance, that is if business performance is poor as compared to previous year then a value of ‘0.5’ is given. When business performs normally or similar to previous year then a value of ‘1’ is given and if the business performs well compared to previous year then a value of ‘1.5’ is given. Novartis mentioned that the combined value of both the multiplier must not exceed 2 unless exceptional performance is measured and therefore the range was selected between 0 and 1.5.

3.1 Advantages and Disadvantages

Following are the advantages of Novartis formula:

- Employees will be motivated to see the organization as their own.
- Each individual will be rewarded based on their own performance and the organization has the liberty to set the incentive percentage.
- The free riding problem is also avoided as everyone will have to work other than the point based incentive system in which all the employees under a group were awarded equal points based on their achievement.
- If the employees work less then they will be given only the basic pay but the one who is willing to work for the betterment of the organization will be receiving good amount as incentive due to his individual performance.
- The business performance multiplier is only one part of the equation so employees will be receiving money in spite the poor performance of the company unlike the profit sharing incentive scheme in which the employees received nothing when the company performance was poor.
- Once the mentioned target is achieved by the employees then no quantitative measurement is done so there won't be any affect on the quality of the product, and as the individual and business performance is a factor for incentive the workers will be motivated to work with heart.

Following are the disadvantages of Novartis formula:

- The drawback lies when the monitoring system fails or the one who monitors the individual performance shows bias on the employees.
- The factors that are considered to give value to the multipliers also need to be calculated precisely else the better person will be more discouraged and the wrong person will be enjoying the benefit.

Implementation of this formula is done using four situations namely:

Situation I: Direct application of values into the formula.

Situation II: Raise the salary of the employees.

Situation III: Change the percentage set by the management.

Situation IV: Alter the value of Business performance.

3.2.1 Situation I

On applying values directly in the formula based on the performance of the industry, following is the comparative result (when compared with the old scheme which is the point based scheme) that is obtained:

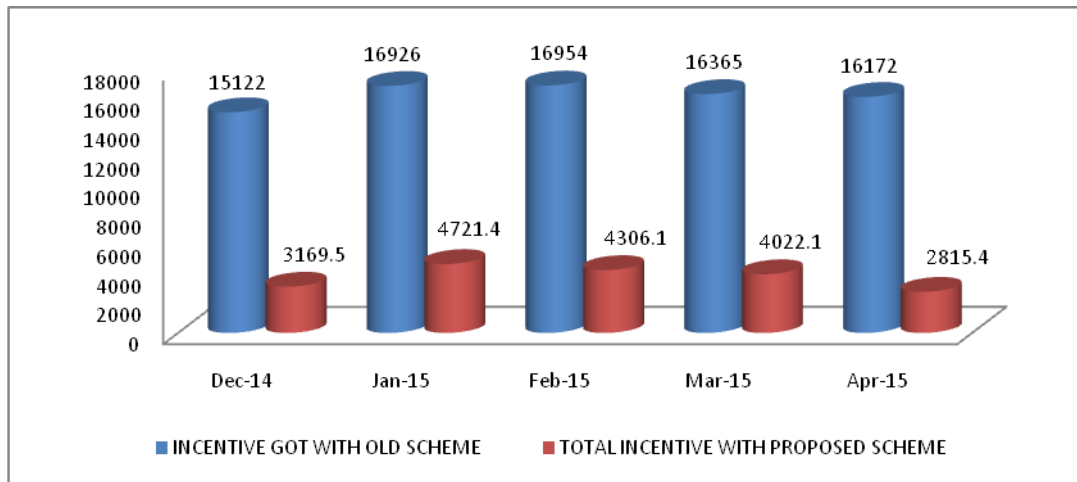


Fig. 3: Implementation of Novartis Formula

3.2.2 Situation II

In this method, a proposal is made to increase the basic salary of the employees. Then based on the increased salary, the percentage of incentive to be given to the employees is calculated. A comparison is made between the previous incentive scheme and the proposed incentive formula which is shown below:

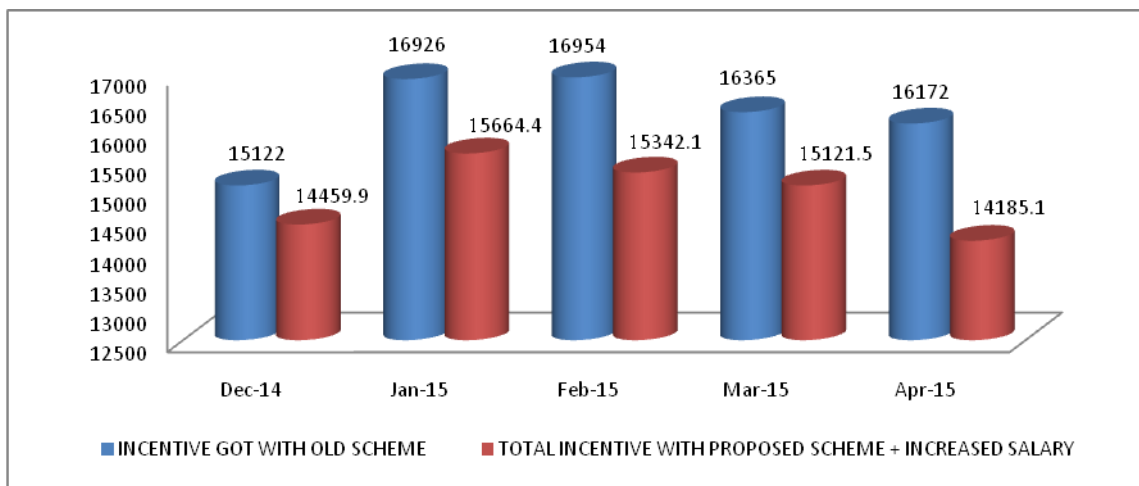


Fig. 4: Implementation After Increasing the Basic Salary.

3.2.3 Situation III

In this method we change the norm that is, a proposal is made to increase the percentage set by the management from 15% to 30%. After that a comparison is made between the previous incentive scheme and the proposed incentive formula which is shown below:

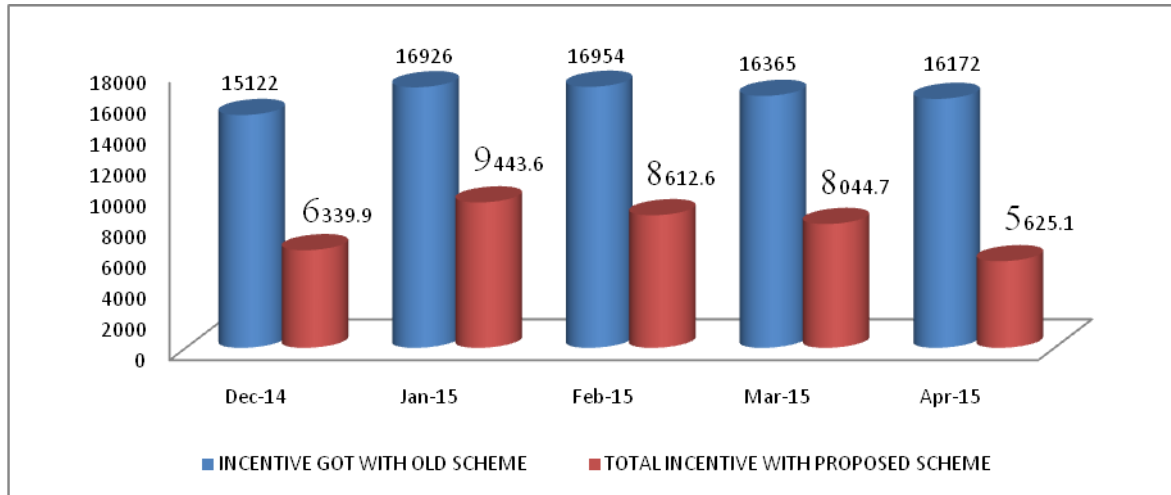


Fig. 5: Implementation After Changing Percentage set by Management from 15% to 30%

3.2.4. Situation IV

In this method we change the values of the norm Business Performance. Then a comparison is made between the previous incentive scheme and the proposed incentive formula which is shown below:

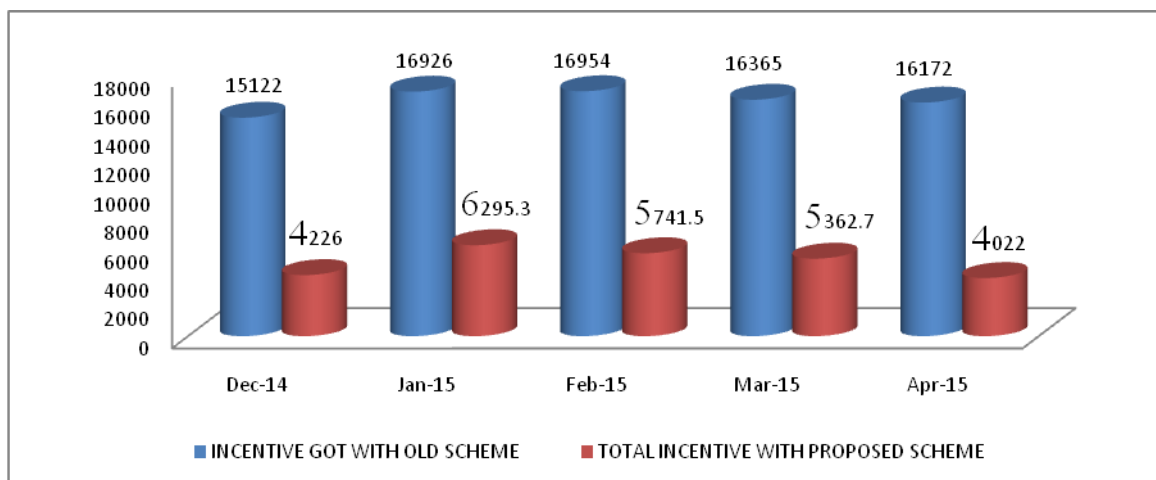


Fig. 6: Implementation After Changing Business Performance Factor.

IV. CONCLUSION

Incentive is the reward that an employer gives to the employee on his/her dedicated work. But if the incentive is same for all the members in the group then dedicated and regular employees may become less dedicated and irregular as everybody is awarded same incentive. So, a better incentive scheme is implemented after a few amendments in the formula whereby incentive not only depends on the target but also on individual performance of the employee. So, different members or employees of the same group may have different incentives based on his/her dedication and regularity to the industry.

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